



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2011 Biennium

<b>Bill #</b>	HB0232	<b>Title:</b>	Remove limits on payments in lieu of taxes for state land in counties
<b>Primary Sponsor:</b>	French, Julie	<b>Status:</b>	As Introduced

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|--|---|--|
| <input checked="" type="checkbox"/> Significant Local Gov Impact | <input type="checkbox"/> Needs to be included in HB 2             | <input checked="" type="checkbox"/> Technical Concerns   |
| <input type="checkbox"/> Included in the Executive Budget        | <input checked="" type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

### FISCAL SUMMARY

	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>	<u>FY 2012 Difference</u>	<u>FY 2013 Difference</u>
<b>Expenditures:</b>				
General Fund	\$1,700,314	\$1,700,314	\$1,700,314	\$1,700,314
Local	\$0	\$0	\$0	\$0
<b>Revenue:</b>				
General Fund	\$0	\$0	\$0	\$0
Local	\$1,700,314	\$1,700,314	\$1,700,314	\$1,700,314
<b>Net Impact-General Fund Balance</b>	<u>(\$1,700,314)</u>	<u>(\$1,700,314)</u>	<u>(\$1,700,314)</u>	<u>(\$1,700,314)</u>

**Description of fiscal impact:** This bill removes the state lands payment in lieu of taxes to counties from the entitlement share payment program, and provides for a direct calculation and distribution of state land PILT payments to counties. This bill provides the counties with full reimbursement from state lands through payments in lieu of taxes. This bill will increase general fund expenditures by about \$1.7 million per year.

### FISCAL ANALYSIS

#### Assumptions:

1. Section one of this bill amends 15-1-121, MCA, a statute dealing with entitlement share payments from the state general fund to county and local governments and tax increment financing districts.
2. The deletion of 15-1-121(1)(o) and the addition of (new) 15-1-121(2)(ii) remove state land payments in lieu of taxes (PILTs) to counties from the calculation of the base year (FY 2001) entitlement share pool for counties, and for the calculation of each county's share thereof. These base year amounts are statutorily required to be used in the calculation of the entitlement share pool for counties and for each

county's entitlement share payment for all years succeeding the base year (fiscal 2001). The entitlement share pool for counties grows each year by 54% of the rate of growth of the Montana economy, with the calculation of the growth in the Montana economy specified in statute.

3. Twenty (20) counties had state land payments in lieu of taxes (PILT) in the original calculation of the county entitlement share pool: Beaverhead, Blaine, Carter, Chouteau, Daniels, Fallon, Golden Valley, Hill, Judith Basin, Lewis and Clark, Liberty, Musselshell, Petroleum, Powder River, Prairie, Richland, Teton, Toole, Valley, and Wheatland.
4. Removing the PILT payments for these counties from the base year pool will act to reduce the total size of the base year pool. Half of the annual growth in the entitlement share pool for counties is allocated based on each county's share of the base year (FY 2001) entitlement share pool, while the other half of the growth is allocated to the counties based on each county's percent of the most recently published state population data. Because the base year entitlement share pool is reduced, and because half of the growth in this pool is allocated on a fixed population base each year, many counties will experience a decrease in their entitlement share payment calculations.
5. Subsection (3)(a)(1) of 15-1-121, MCA, which provided for a one-time adjustment of FY 2007 entitlement share payments for state assumption of public defender costs (SB169, 2007 session) is deleted for statute cleanup purposes.
6. Section two of this bill amends 17-7-502, MCA, adding 77-1-502, MCA to the list of laws containing statutory appropriations.
7. 77-1-502, MCA addresses the calculation of payments in lieu of taxes to counties for state lands in counties. No payments are currently being made under this statute. These payments have been replaced with the entitlement share payment and local school block grants programs.
8. Prior to the entitlement share payment and local school block grant programs, state land payments in lieu of taxes were allocated within each county 40% to the county road fund and 60% to elementary school districts. Only the 40% for the county road fund was incorporated into the base year calculation of the county entitlement share payment. The 60% for local schools was incorporated into the local school block grant program. This statute required the department of revenue to calculate the amount of taxes that would have been paid on the land if the land were owned by taxpayers in the county and assessed for purposes of taxation. Agricultural land of private owners must be classified for taxation according to its use. If the state land is not classified for purposes of taxation, payments to the counties were limited to no more than \$0.12 per acre for grazing land, \$0.35 per acre for agricultural land, and \$0.12 per acre for forest land. Under this statute, the state reimbursed the counties for a portion of lost revenues which varies with the proportion of state land acres to total acres in the county. Counties in which state lands comprise less than six percent of the total acres received no reimbursement. In the past, the state made PILT payments of about 30% of the total of the lost revenues in the counties where state lands made up over 6% of the total acres in the county. Daniels County has the largest proportion of state lands with the state owning over 24% of land in the county.
9. This bill would amend this statute by removing the limitations for payments in lieu of taxes for nonclassified land, and providing for full reimbursement to all counties for loss in entitlement share revenues as calculated under the proposed statute. These calculations would include reimbursement to elementary school districts, even though these districts continue to be reimbursed through the local school block grant program. This bill does not amend the local school block grant program to remove state land PILT payments from the school block grant program.
10. Section four of this bill provides an effective date of July 1, 2009. This bill will thus apply starting in tax year 2010.
11. Removal of the state land PILTs from the base year entitlement share pool for counties requires the department of revenue to adjust (reduce) the amount of the base year pool and to recalculate each county's share of the base year pool. These adjustments require the department of revenue to recalculate each

succeeding year's county entitlement share pool, and each county's entitlement share payment. Completing this task would require dedicating a significant amount of Department of Revenue resources.

12. Because of the complicated nature of these calculations the department of revenue will make a general estimate of the changes to all counties entitlement share payments for the future. The department has estimated the effect on the PILT counties entitlement share payments for FY 2009 by growing the PILT amount in the base year by each county's entitlement share payment average growth from the base year to FY 2009.
13. In addition, 77-1-502, MCA requires the department to calculate PILT payments each year, even though the PILT payments are no longer being made.
14. The bill reimburses county governments in full for state land PILT payments, but further requires that these payments "to the taxing jurisdictions within the county in the same manner as property taxes are distributed". This means that after receiving their PILT payments county governments will have to return a portion of the payment to the state in payment for the 95 mills levied for the state general fund, and for the 6 mills levied for the university system.
15. The table below compares the estimated FY 2009 entitlement share PILT payment to the calculated FY 2009 PILT payments. It further shows the general fund distribution offset to those payments and the net impact on the state general fund. The net impact is a reduction in general fund of \$1.7 million.

COMPARISON OF ENTITLEMENT SHARE PAYMENT TO PROPOSED LAW					
County	PILT Amount in Base ESP Pool	Estimated PILT Amount in ESP FY 2009	Estimated Full PILT Payment FY 2009	General Fund Distribution Offset (101 mills)	Net Impact to State General Fund
Beaverhead	26,614	32,155	222,964	40,565	(150,244)
Blaine	3,792	4,464	164,483	36,471	(123,548)
Carter	2,592	2,981	72,075	16,971	(52,123)
Chouteau	48,738	55,912	365,005	68,405	(240,688)
Daniels	79,218	90,696	395,242	59,524	(245,022)
Fallon	1,029	1,184	22,920	8,829	(12,907)
Golden Valley	560	650	31,230	6,648	(23,932)
Hill	18,581	22,085	219,774	38,033	(159,656)
Judith Basin	10,501	11,997	122,028	26,498	(83,533)
Lewis And Clark	172	201	83,486	13,193	(70,092)
Liberty	10,533	12,047	87,754	17,573	(58,134)
Musselshell	785	841	54,639	9,433	(44,365)
Petroleum	13	15	0	0	15
Powder River	2,835	3,221	88,950	14,572	(71,157)
Prairie	1,864	2,130	54,531	9,350	(43,051)
Richland	541	656	46,766	12,722	(33,388)
Teton	5,046	5,887	106,754	17,721	(83,146)
Toole	8,629	9,868	91,694	19,640	(62,186)
Valley	5,166	6,512	151,353	29,493	(115,348)
Wheatland	2,786	3,274	40,729	9,646	(27,809)
<b>TOTAL</b>	<b>229,995</b>	<b>266,776</b>	<b>2,422,377</b>	<b>455,287</b>	<b>(1,700,314)</b>

**Expenditures:**

Transfers	\$1,700,314	\$1,700,314	\$1,700,314	\$1,700,314
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**Funding of Expenditures:**

General Fund (01)	\$1,700,314	\$1,700,314	\$1,700,314	\$1,700,314
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**Revenues:**

Local	\$1,700,314	\$1,700,314	\$1,700,314	\$1,700,314
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**Net Impact to Fund Balance (Revenue minus Funding of Expenditures):**

General Fund (01)	(\$1,700,314)	(\$1,700,314)	(\$1,700,314)	(\$1,700,314)
Local	\$1,700,314	\$1,700,314	\$1,700,314	\$1,700,314

**Effect on County or Other Local Revenues or Expenditures:**

1. County and other local revenues will increase annually by about \$1.7 million for those counties with state land PILT payments. However, as discussed above in assumption 4, when entitlement share payment calculations are recalculated through every county for every year since the inception of the entitlement share payment program, payments to some counties will decrease.

**Long-Term Impacts:**

1. General fund expenditures will increase by about \$1.7 million annually for the foreseeable future.

**Technical Notes:**

1. Under current law, reductions to entitlement share payments for counties, cities and towns, and consolidated governments require a three-fifths vote of both houses of the legislature.
2. This bill requires the department of revenue to make adjustments to the base year entitlement share pool for the 20 affected counties. These changes will affect the calculations for the county entitlement share pool and each county's entitlement share payment for all succeeding years.
3. By providing county governments with the full amount of PILT payment associated with state lands, county governments would receive a full reimbursement for state lands plus continue to receive the 60% of the previous state land PILT payment still included in school block grant programs, effectively providing counties with PILT payments well in excess of 100% of the calculated PILT amount.
4. It is not possible to definitively calculate the impact of this bill on county PILT payments in future years. These payments rely on assessed values for agricultural and forest land. These lands are currently being reappraised under the current reappraisal cycle with new appraisal values going on the books beginning this year. These new reappraisal values have not been finalized and established. In the absence of knowing what these mitigation measures might be, it is impossible to determine with any accuracy the impact of this bill on county and state government revenues. Impacts provided herein are based on tax year 2008 values, which, again, will change significantly after the new reappraisal values are implemented.

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*Sponsor's Initials*


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*Date*


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*Budget Director's Initials*


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